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SUBJECT: SED SESSION V: MERGING ECONOMIC GROWTH AND
ENVIRONMENTAL SUSTAINABILITY, DECEMBER 13, 2007

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Summary

[1](#)1. (SBU) Summary: Session V of the U.S.-China Strategic Economic Dialogue (SED) focused on the environmental protection achievements of both countries and sustainable development recommendations for the future. Several successful collaborative efforts on environmental protection were highlighted during the session, and both sides made constructive suggestions for increasing future cooperation in these areas. The discussions were positive and demonstrated that both sides have converging interests in the areas of environmental protection and sustainable development. End Summary.

China: Committed to Environmental Protection

[1](#)2. (SBU) During a December 13 discussion on economic growth and environmental sustainability, Vice Premier Wu Yi emphasized China's commitment to environmental protection and building a conservation culture. China's State Environmental Protection Administration (SEPA) Minister Zhou Shengxian echoed Wu's comments and noted China's progress in environmental protection since the last meeting of the SED in May 2007. He said that environmental protection was highlighted at the 17th National Party Congress in October, where China agreed to determine the cost of economic growth on the environment, use environmental protection to achieve fast and sound economic growth, set environmental benchmarks, and make

environmental protection a major part of China's foreign policy.

13. (SBU) Zhou stated China has three "musts" and six "measures" for protecting the environment. China must: improve policy and laws and use more legal means to protect the environment; grasp the main environmental problems; and earnestly implement its environmental protection plan. The six "measures" include: getting rid of old facilities; establishing many pollution control projects; clean the rivers, lakes and seas; protect the environment in rural areas; promote the development of a "circular economy" focused on recycling, minimal waste and energy efficiency; and maintain good statistics. Zhou said that China had seen a turning point this past year with reduction in both sulfur dioxide emissions (SO₂) and water pollution or chemical oxygen demand (COD). Zhou said that China is building more water treatment plants for cities with 60 percent of urban sewage now treated.

Fewer Coal-Fired Power Plants?

14. (SBU) Zhou said that media reports that China is adding a coal-fired power plant every few days are inaccurate, because China is also closing down old, inefficient power plants at the same time. He said China has already closed down 10 gigawatts of small, coal-fired power plants. Zhou further highlighted Chinese policies to encourage environmental protection such as a lowering the VAT refund rate for high polluting industries in 2,800 product categories and charging more to power plants without FGD (flu gas desulfurization) pollution control equipment. Zhou said he looked forward to the Joint Committee on

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Environmental Cooperation (JCEC) meeting to be held December 14, which EPA and SEPA hold every two years. He said the SED, JCEC and other fora are useful for strengthening environmental cooperation and to improve overall bilateral relations.

China's Energy Goals

15. (SBU) National Development and Reform Commission (SDRC) Chairman Ma Kai said that China will speed up the restructuring of industry in order to achieve its 11th Five-Year Plan targets of 10 percent reduction in overall pollutants and 20 percent reduction in energy intensity. He said that China will develop the service sector and the high tech industry sector and reduce energy intensive industries in order to reduce energy intensity. As an example, he said that 50 percent of all cement in China is now produced with new more efficient technology. Ma said that China will improve policy mechanisms such as fees and pricing for resources which must reflect the demand on the resources and the environmental costs. He said that a fund would be set up for environmental protection and that China would increase public awareness of energy conservation and accelerate cooperation under the September 2007 MOU signed by the U.S. Department of Energy and the NDRC on Industrial Energy Efficiency Cooperation.

Emissions Trading and China's Power Sector

16. (SBU) U.S. Environmental Protection Agency (EPA) Administrator Stephen Johnson highlighted the completed U.S.-China Joint Economic Study (JES), which offers recommendations for energy savings and pollution abatement policies for the electric power sector in China, including emissions trading programs. Johnson highlighted the success that the U.S. has had in using emissions trading programs to reduce pollution and outlined China's potential in this field. In addition, the JES estimates that a

national SO2 emissions trading system in China's power sector would reduce costs by more than 16 percent. SEPA Minister Zhou praised the JES and the cost effectiveness of emissions trading programs.

¶17. (SBU) Administrator Johnson attributed the success of the United States at protecting the environment to the following principles:

- Strong, precise, and workable laws with clear and specific national standards and compliance requirements;
- Comprehensive, accurate, and timely information about emissions;
- Self-reporting of compliance information;
- Strong enforcement with penalties higher than the money saved through non-compliance;
- Strong national agency with appropriate legal authority and resources;
- Public reporting of corporate environmental performance; and
- National system for citizen reporting of non-compliance and initiation of legal actions.

Joint Efforts on Global Climate Change

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¶18. (SBU) NDRC Chairman Ma praised the recent efforts of China and the United States to develop a joint statement on climate change and said it was a useful conversation to agree on the UNFCCC as the basis of these discussions. However, he criticized the U.S. for failing to reach agreement on the language China wanted in the joint statement including that the United States should take the lead on climate change based on historical responsibilities. He said China will make its own contributions to address global climate change.

¶19. (SBU) Treasury Secretary Henry Paulson agreed with Ma that progress was made during discussions on the joint statement on climate change. Paulson emphasized that the purpose of the joint statement was to highlight the ten-year plan on energy and environmental cooperation agreed to in the SED outcomes document.

Reducing Tariffs on Environmental Goods and Services

¶10. (SBU) U.S. Trade Representative Susan Schwab commented on the joint EU-US proposal on elimination of tariff and non-tariff barriers on environmental goods and services. She requested China engage on this issue at the next round of the SED scheduled for June in Washington. Vice Premier Wu Yi said that the Chinese side could not discuss this issue at this time.

Illegal Logging and Associated Trade

¶11. (SBU) State Department Under Secretary Reuben Jeffery announced the signing of the U.S.-China MOU on combating illegal logging and associated trade which would promote sustainable forest management. Administrator Johnson said cooperation on combating illegal logging provides a useful example of how we can work together to promote economic growth and environmental sustainability.

¶12. (SBU) China's State Forestry Administration Vice

Minister Zhu Lieke said that forests are the main body for environmental protection and are major carbon sinks. He said that China attaches great importance to the protection and development of forests. China has made a major contribution to the world's forests because as the percentage of world forest cover has decreased, China's forest cover has increased. Zhu said that majority of deforestation comes from turning forest into farmland and wildfires, not the timber trade. He said that China opposes illegal logging and supports sustainable management of forests such as China's APEC proposal on sustainable forest management.

China Seeks U.S. Help on Water and Occupational Health

¶13. (SBU) Minister of Health Chen Zhu discussed the relationship between environment and health and said that disease is the result of interaction between human beings and the environment. Chen said that the Ministry of Health was part of 18 departments that developed an action plan on the National Environment and Health. He said that China wants to increase cooperation in two areas: sanitation of drinking water in rural areas and occupational health. He said that the top priority for drinking water was to improve the standards on drinking water, establish a nationwide monitoring network, survey the quality of the water and improve the examination and supervision of drinkable water. Regarding occupational health, Chen said that China has a large population and a large labor force which work long hours. He said that the most frequent occupational diseases in China are lung-related diseases.

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Chen said that China wants to increase cooperation with the U.S. on improving occupational health laws and improving the competence of doctors and medical staff. He also wants to increase joint research on environmentally related diseases.

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